

To the Mayor and Members of the City Council**May 17, 2016****SUBJECT: RATING AGENCY RESULTS ASSOCIATED WITH THE 2016 DEBT PLAN****Background**

As part of the City's 2016 debt plan and the upcoming bond offerings, the City completed rating agency presentations to Moody's, Fitch and Standard and Poor's the week of April 25th. The following presents the ratings assigned to the City's General Purpose Refunding and Improvement Bonds, the Water and Sewer Revenue Improvement and Refunding Bonds, and the Drainage Utility System Revenue Refunding Bonds.

General Purpose Refunding and Improvement Bonds, Series 2016 Rating

Moody's: Aa2 with a Stable Outlook, downgraded from a Aa1

Fitch: AA+ with a Stable Outlook

Standard and Poor's: AA+ with a Stable Outlook

Credit Opinions - Highlights of Rating Agency Comments

Moody's noted that the "Aa2" rating and downgrade reflects the City's large and growing unfunded pension liability and growing fixed cost burden, which includes annual pension, OPEB and debt service requirements. The rating and outlook also reflects positive attributes, including the City's large and diverse tax base that is expected to remain on a growth trend, average socioeconomic indices considering the large metro area, and stable financial performance with adequate reserves.

Fitch noted the "AA+" rating reflects Fitch's expectation of the City's strong operating performance throughout the economic cycle, as well as the City's moderate long-term liability burden. They note that the City has solid economic and revenue prospects and significant control over revenues and spending, and has recently demonstrated strong budget management that Fitch expects to continue. Fitch also noted that the recent results indicate significant progress on reporting and financial control matters, and that the City's revenue performance has been healthy since the recession.

Standard & Poor's noted their assessment of AA+ is attributed to a series of factors including:

- strong management with strong financial policies and practices
- strong budgetary performance and flexibility
- very strong liquidity and 10.8X governmental debt service
- weak debt and contingent liability position, with debt service carrying charges at 8% of expenditures and a large pension and other post-employment benefit obligation

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Moody's: Aa1 with a Stable Outlook

Fitch: AA+ with a Stable Outlook

Standard and Poor's: AA+ with a Stable Outlook, upgraded from a AA

Credit Opinions – Highlights of Rating Agency Comments

Moody's noted that the "Aa1" rating reflects strong characteristics of a large system that acts as a regional provider of water and sewer services, stable financial performance and metrics including debt service coverage with stable, yet below average days cash on hand. The rating also incorporates strong rate management and capital planning, as well as a manageable debt profile and relatively weak legal provisions for the bonds with a sufficient rate covenant and a lack of an established debt service reserve.

Fitch noted the following rating drivers to support their AA+ rating:

- Stable Revenue Source
- Ample Operating and Financial Flexibility
- Moderate Decline in Financial Profile
- Extensive Needs but Pay-Go Funded
- Large and Diverse Regional Economy

Standard & Poors noted the following factors in their upgraded AA+ rating:

- A broad and diverse service area that includes retail and wholesale service for a population over one million in a metropolitan statistical area they deem as strong
- The system's strong operational profile, with raw water provided by the Tarrant Regional Water District helping to reduce some financial and operating risks to the City
- A pass-through of wholesale rate increases and a regular review and as-necessary adjustment of base rates to preserve the system's financial risk profile

Drainage and Utility System Revenue and Refunding Bonds, Series 2016, Rating

Moody's: Not Rated

Fitch: AA+

Standard and Poor's: AA+



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Fitch lists the following rating drivers to support their AA+ rating:

- The bonds are secured by a very stable and predictable revenue stream with the fixed drainage fee comprising a nominal 8% of the total utility bill
- The low cost of maintenance of utility assets
- A moderate decline in the financial profile
- \$300 million to \$400 million of critical system needs expected to be addressed in the foreseeable future which will be funded solely on a pay-go basis
- Fort Worth is a major anchor in the Dallas-Fort Worth regional economy

Standard & Poor's noted the following factors in support of their AA+ rating:

- A broad and diverse service area that includes retail and wholesale service for a population over one million in a metropolitan statistical area they deem as strong
- The system's limited operational risk as it is fully compliant with its municipal separate storm sewer system permit
- A regular review of rates – management is constantly monitoring revenue requirement and capital investment needs of the system

Next Steps in the Process

The bonds will be sold on a competitive basis and priced in the market on May 25th. Subsequent to pricing, the City will submit the transactions to the Texas Attorney General for approval. Closing of the transactions is anticipated to occur on June 28th. Staff will prepare an Information Report after pricing is completed.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517.

David Cooke
City Manager